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FISCAL IMPACT STATEMENT

LS 7087

BILL NUMBER: HB 1902

NOTE PREPARED: Feb 19, 2003

BILL AMENDED: Feb 17, 2003

SUBJECT: French Lick and West Baden Springs Riverboat.

FIRST AUTHOR: Rep. Denbo

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill authorizes a riverboat casino for a historic district located in French Lick and West Baden Springs using the riverboat license formerly designated for Patoka Lake. The bill provides for the ownership and management of the riverboat and provides for the distribution of tax revenue remitted by the riverboat.

Effective Date: July 1, 2003.

Explanation of State Expenditures: The Indiana Gaming Commission would incur additional administrative expenses relating to the licensing and regulation of gaming at the Orange County riverboat casino. As with the existing riverboat casinos, such administrative costs will be covered with revenue from investigation fees, license fees, and the Riverboat Wagering Tax.

Explanation of State Revenues: (Revised) A riverboat casino in Orange County is estimated to generate about \$7.6 M annually in additional revenue from the Riverboat Wagering Tax; and about \$1.45 M annually in additional revenue from the Riverboat Admission Tax. The bill requires 25% of the Admission and Wagering Tax revenue collected from the Orange County casino to be distributed to the Property Tax Replacement Fund. The distributions are estimated to total about \$2.26 M annually (\$362,000 in Admission Tax revenue and \$1.9 M in Wagering Tax revenue). This revenue impact is not expected to begin before FY 2005.

Caveats: The fiscal estimates are not adjusted to account for the potential negative effect that competing riverboats (in particular, nearby riverboats Casino Aztar in Evansville and Caesars in Harrison County) may have on admissions and wagering at a casino located in Orange County. Thus, actual Admission and

Wagering Tax revenue could potentially be less than estimated to the extent that an Orange County casino shares its market with other existing riverboat casinos. In addition, the fiscal estimates do not account for potential decline in Admission and Wagering Tax revenue from existing riverboats due to new casino operations in Orange County. These potential competitive impacts on the fiscal outcomes are indeterminable.

Background: The bill eliminates the Patoka Lake riverboat casino license and, instead, authorizes licensing a riverboat casino located in Orange County. The Orange County casino must be located within a historic district that consists solely of the real property owned by the historic resort hotels in French Lick and West Baden Springs. The owner's license for the casino would be issued to the district which would be operated jointly by French Lick and West Baden Springs under a Historic Preservation Commission. The bill requires the Historic Preservation Commission to contract with a person holding an Operating Agent's License (created by the bill) to operate and manage the casino. The Operating Agent's License would be issued by the Indiana Gaming Commission only for purposes of the management and operation of the Orange County casino. The bill provides that the net income from the operation of the casino is to be deposited in a Community Trust Fund administered by the Historic Preservation Commission.

The bill requires the Orange County casino to implement flexible scheduling. Under current law unchanged by the bill, the Orange County casino would be subject to the Admission Tax and Wagering Tax applying to riverboat casinos implementing flexible scheduling. Thus, the Orange County casino must pay the \$3 Admission Tax for each person admitted to the casino and the Wagering Tax according to the graduated scale specified in the table below.

Taxable Increment of Annual AGR	Tax Rate on Increment
\$25 M and under	15%
Over \$25 M up to \$50 M	20%
Over \$50 M up to \$75 M	25%
Over \$75 M up to \$150 M	30%
Over \$150 M	35%

The bill also eliminates the Admission Tax and Wagering Tax distribution schemes pertaining to the Patoka Lake riverboat license and establishes new distributions pertaining to Admission and Wagering Tax collections at the Orange County casino. The percentage distributions are the same for both taxes and are presented in the table below.

Recipient	% Distribution
Property Tax Replacement Fund	25%
French Lick/West Baden Springs Historic District	24%
Orange County	9%
Divided Equally Between Orleans and Paoli	8%
Divided Equally Between Orange County School Corporations	7%
French Lick and West Baden Springs	6% each
Crawford County and DuBois County	4% each
French Lick and West Baden Springs Tourism Commissions	3% each
Orange County for Local Unit Grants	1%

Fiscal Impact Details: Admission and Wagering Tax estimates are based on annual adjusted gross wagering receipts (AGR) and turnstile admissions totals from FY 2000-FY 2002 at Casino Aztar in Evansville. Based on activity at Casino Aztar, annual AGR is estimated to be approximately \$110.0 M and annual turnstile admissions of \$1.2 M. These totals are scaled down as gaming industry analysts suggest that the actual scale of operations in Orange County could potentially be about 36% to 44.5% of operations at Casino Aztar. This is based on analysis indicating a maximum scale in Orange County consisting of approximately 500 to 600 electronic gaming devices. As a result, annual AGR is estimated at about \$40.0 M to \$49.0 M and annual turnstile admissions of about 432,000 to 534,000 for the Orange County operation. This yields an estimated \$6.7 M to \$8.5 M in Wagering Tax revenue and an estimated \$1.3 M to \$1.6 M in Admission Tax revenue. The midpoint of these ranges is used in presenting estimated revenue totals and distribution totals. The revenue impact is not expected to begin prior to FY 2005. This conclusion is based on the start-up times for the ten existing riverboat casinos, as well as the fact that current statute requires the voters in Orange County to pass a referendum allowing riverboat gambling in the county. It has taken an average of 17 months from the time the certificate of suitability was issued by the Gaming Commission for the ten existing riverboats to commence gaming operations. (The certificate of suitability is issued by the Gaming Commission to a person who has been chosen to receive a Riverboat Owner's License.)

The bill also would affect revenue to the state from the Occupational License Fee and would establish an Operating Agent's License Fee. The bill excludes the historic district from paying application and license fees relating to the Owner's License. Given that there are already a number of licensed supplier's operating in the state, supplier's licenses may not be affected by the bill. License fee revenue is distributed to the State Gaming Fund. The Occupational License Fee is imposed on individuals employed in certain riverboat gambling occupations. The Application Fee is dependent on the type of license obtained, ranging from \$75 to \$1,000. The Annual License Fee is also dependent on the type of license obtained, ranging from \$25 to \$100. Revenue from the Application Fee totaled approximately \$975,000 in FY 2002; and revenue from the Annual License totaled about \$530,000 in FY 2002. There would be one operating agent licensed for the Orange County casino. The bill requires an application fee to be determined by the Gaming Commission for an Operating Agent's License. The initial license fee for an operating agent is \$25,000, with an annual renewal fee of \$5,000.

Explanation of Local Expenditures: (Revised) The Orange County riverboat casino must be located in a

historic district established under an interlocal agreement between French Lick and West Baden Springs. The district must consist of the real property owned by the historic resort hotels in French Lick and West Baden Springs. The bill requires a Historic Preservation Commission consisting of eight members to govern the operations of the District and to hold the Owner's License for the casino. The Commission is then required to contract with a person to manage the day-to-day operations of the casino.

The bill establishes a Community Trust Fund to include money disbursed from the Commission, donations, and interest and dividends on assets of the Fund. The Commission is required to manage and develop the Fund and its assets. The bill requires expenses of administering the Fund to be paid from the Fund. The Commission has the sole authority to allocate money from the Fund for: (1) the preservation, restoration, maintenance, operation, and development of the French Lick and West Baden Springs historic resort hotels; (2) infrastructure projects in the surrounding community; (3) historic preservation or restoration projects in the community; and (4) other projects designed to enhance the historic character of the community. The bill requires money in the Fund to be allocated by the Commission as follows: (1) 45% for purposes of the French Lick historic resort hotel, (2) 45% for purposes of the West Baden Springs historic resort hotel; and (3) 10% at the discretion of the Commission for any of the above-described purposes.

The bill requires the Commission to hold public meetings and to keep a public record of its resolutions, proceedings, and actions. The Commission would be subject to laws relating to the deposit of public money and would have to deposit money under the advisory supervision of the State Board of Finance. The Commission also would be subject to examination by the State Board of Accounts.

Explanation of Local Revenues: (Revised) A riverboat casino in Orange County is estimated to generate about \$7.6 M annually in additional revenue from the Riverboat Wagering Tax; and about \$1.45 M annually in additional revenue from the Riverboat Admission Tax. This revenue impact is not expected to begin before FY 2005. Under the bill, local units receive 75% of the revenue collected from each tax. This totals about \$5.7 M from the Wagering Tax and \$1.09 M from the Admission Tax. The local distribution totals for each tax are presented in the table below. (See *Explanation of State Revenues* for state and local distribution percentages.)

Recipient	Admission Tax	Wagering Tax
Historic District	\$348,000	\$1.83 M
Orange County	\$130,000	\$684,000
Orleans and Paoli	\$58,000 each	\$304,000 each
Orange County School Corporations	\$101,000	\$532,000
French Lick and West Baden Springs	\$87,000 each	\$456,000 each
Crawford County and DuBois County	\$58,000 each	\$304,000 each
French Lick and West Baden Springs Tourism Commissions	\$43,000 each	\$228,000 each
Orange County for Local Unit Grants	\$15,000	\$76,000
Total	\$1.09 M	\$5.7 M

The distributions to the tourism commissions must be used for advertising and tourism promotion activities. The distributions to Orange County for local unit grants totaling about \$91,000 must be used to provide grants to governmental entities other than the counties and towns receiving distributions listed in the table. The bill requires the fiscal bodies of these counties and towns to act in concert to select qualified recipients for grants.

The bill also requires that the net income earned from the casino after operating expenses be deposited in the Community Trust Fund administered by the French Lick/West Baden Springs Historic Preservation Commission (see *Explanation of Local Expenditures* for description of the Trust Fund). Under the bill, “operating expenses” includes certain Commission expenses and management fees paid to the operating agent. Currently, sufficient data is unavailable relating to typical casino profit margins. However, adjusted gross wagering receipts (total wagering receipts minus winnings paid to gamblers) of a casino in Orange County are estimated to total \$44.3 M annually. As a result, net gaming receipts after payment of winnings, wagering taxes, and admission taxes could total approximately \$35.2 M. (Presumably, the historic district would have no other federal, state, or local tax liability relating to the casino operation.) Remaining expenses that would reduce this total further would include capital and interest expenses relating to the casino property, personnel expenses, and management fees to the licensed operating agent hired to manage the casino. The extent of these costs are currently indeterminable.

State Agencies Affected: Indiana Gaming Commission, State Board of Finance, State Board of Accounts.

Local Agencies Affected: French Lick, West Baden Springs, Orleans, Paoli, Crawford County, DuBois County, Orange County.

Information Sources: *Monthly Summary of Wagering and Admission Tax*, Indiana Gaming Commission.

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